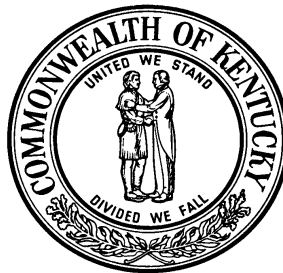


**REPORT OF THE AUDIT OF THE
FORMER BELL COUNTY
CLERK**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER BELL COUNTY CLERK

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the former Bell County Clerk's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$7,385 from the prior year, resulting in excess fees of \$61,653 as of December 31, 2006. Revenues increased by \$153,516 from the prior year and expenditures increased by \$160,901.

Debt Obligation:

Capital lease agreements totaled \$4,834 as of December 31, 2006.

Report Comments:

- The Former County Clerk Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$5,346 And Enter Into A Written Agreement To Protect Deposits
- The Former County Clerk's Personnel Administrative Policy Should Be In Writing

Deposits:

The former County Clerk's deposits as of August 29, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$5,346

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Albey Brock, Former Bell County Judge/Executive
The Honorable Joan Asher Cawood, Former Bell County Clerk
The Honorable Becky Blevins, Bell County Clerk
Members of the Bell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former County Clerk of Bell County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former County Clerk for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 16, 2007 on our consideration of the former County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Albey Brock, Former Bell County Judge/Executive
The Honorable Joan Asher Cawood, Former Bell County Clerk
The Honorable Becky Blevins, Bell County Clerk
Members of the Bell County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former County Clerk Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$5,346 And Enter Into A Written Agreement To Protect Deposits
- The Former County Clerk's Personnel Administrative Policy Should Be In Writing

This report is intended solely for the information and use of the former County Clerk and Fiscal Court of Bell County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

July 16, 2007

BELL COUNTY
 JOAN ASHER CAWOOD, FORMER COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State Fees For Services	\$	12,918	
Libraries and Archives Grant			4,052
Fiscal Court			85,052
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	556,818	
Usage Tax		1,459,997	
Tangible Personal Property Tax		1,414,498	
Lien Fees		5,424	
Other-			
Fish and Game Licenses		10,792	
Marriage Licenses		10,109	
Occupational Licenses		290	
Legal Process State Fees		5,937	
Deed Transfer Tax		31,537	
Delinquent Tax		287,856	
Affordable Housing Trust Fund		8,742	3,792,000
Fees Collected for Services:			
Recordings-			
Liens		5,767	
Deeds, Easements, and Contracts		11,056	
Real Estate Mortgages		22,352	
Chattel Mortgages and Financing Statements		58,293	
Powers of Attorney		961	
All Other Recordings		14,993	
Charges for Other Services-			
Copywork		16,211	
Notary Fees		5,681	135,314
Other:			
Refunds		7,091	
Miscellaneous Receipts		6,924	14,015
Interest Earned			993
Redeposits/Reimbursements			106
Total Revenues			4,044,450

The accompanying notes are an integral part of this financial statement.

BELL COUNTY
 JOAN ASHER CAWOOD, FORMER COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 440,689

Usage Tax 1,414,193

Tangible Personal Property Tax 482,888

Licenses, Taxes, and Fees-

Fish and Game Licenses 10,304

Delinquent Tax 60,146

Legal Process Tax 17,444

Affordable Housing Trust Fund 8,742 \$ 2,434,406

Payments to Fiscal Court:

Tangible Personal Property Tax 140,941

Delinquent Tax 68,386

Deed Transfer Tax 29,963

Occupational Licenses 470 239,760

Payments to Other Districts:

Tangible Personal Property Tax 734,166

Delinquent Tax 108,098 842,264

Payments to Sheriff

2,976

Payments to County Attorney

28,652

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 208,997

Part-Time Salaries 4,853

Overtime 34,754

Employee Benefits-

Employer's Share Social Security 23,699

Contracted Services-

Part-Time 1,425

Accounting Services 4,731

Materials and Supplies-

Office Supplies 1,999

The accompanying notes are an integral part of this financial statement.

BELL COUNTY
 JOAN ASHER CAWOOD, FORMER COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-

Conventions and Travel	\$	1,318
Refunds		11,017
Miscellaneous		1,780
Election Expenses		36,772
Preparing Tax Bills		3,917
Bank Charges		233

Capital Outlay-

Office Furniture		10,000
Office Equipment		8,046
		<u>8,046</u>
	\$	353,541

Total Expenditures			\$	3,901,599
Net Revenues				142,851
Less: Statutory Maximum				<u>74,296</u>
Excess Fees				68,555
Less: Expense Allowance		3,600		
Training Incentive Benefit		<u>3,302</u>		<u>6,902</u>
Excess Fees Due County for 2006				61,653
Payment to Fiscal Court - March 6, 2007				<u>50,000</u>
Balance Due Fiscal Court at Completion of Audit *			\$	<u>11,653</u>

*Note - The former County Clerk presented a check to the County Treasurer for the balance due Fiscal Court on July 16, 2007.

The accompanying notes are an integral part of this financial statement.

BELL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BELL COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2006
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The former County Clerk did not enter into a written security agreement with the depository institution to protect deposits.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The former County Clerk did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were adequately covered by FDIC insurance or pledged securities but no properly executed collateral security agreement. However, on August 29, 2006, \$5,346 of public funds were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$5,346

BELL COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2006
 (Continued)

Note 4. Libraries and Archives Grant

During 2006, the former County Clerk received a grant from the Kentucky Department for Libraries and Archives for the purchase of a plat cabinet and industrial shelving in the amount of \$4,050. The account accumulated interest of \$2 during the year bringing the total to \$4,052. The former County Clerk made two expenditures totaling \$4,052, leaving a \$0 balance as of December 31, 2006.

Note 5. Coal Severance Grant

The Bell County Fiscal Court received a coal severance grant and passed the funds through to the former County Clerk's office. The purpose of the grant was to purchase office furniture and equipment. The beginning balance as of January 1, 2006 was \$0. During 2006, funds of \$10,000 were received and expended, leaving a \$0 balance as of December 31, 2006.

Note 6. Lease

The County Clerk's office was committed to the following lease agreement as of December 31, 2006:

<u>Item Purchased</u>	<u>Monthly Payment</u>	<u>Term Of Agreement</u>	<u>Ending Date</u>	<u>Principal Balance December 31, 2006</u>
Copier	\$ 352	39 months	02/13/08	\$ 4,834

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Albey Brock, Former Bell County Judge/Executive
The Honorable Joan Asher Cawood, Former Bell County Clerk
The Honorable Becky Blevins, Bell County Clerk
Members of the Former Bell County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Bell County Clerk for the year ended December 31, 2006, and have issued our report thereon dated July 16, 2007. The former County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Bell County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Bell County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Bell County Clerk's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Bell County Clerk's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Former County Clerk Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$5,346 And Enter Into A Written Agreement To Protect Deposits
- The Former County Clerk's Personnel Administrative Policy Should Be In Writing

The former Bell County Clerk's response to the findings identified in our audit is included in the accompanying comments and recommendations. We did not audit the former County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Bell County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

July 16, 2007

COMMENTS AND RECOMMENDATIONS

BELL COUNTY
JOAN ASHER CAWOOD, FORMER COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

STATE LAWS AND REGULATIONS:

The Former County Clerk Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$5,346 And Enter Into A Written Agreement To Protect Deposits

On August 29, 2006, \$5,346 of the former County Clerk's deposits of public funds at Home Federal Bank were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The former County Clerk should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the former County Clerk enter into a written agreement with the depository institution to secure the former County Clerk's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Former County Clerk's Response: This was unusual for the M'boro office account to reach 100,000 or above.

The Former County Clerk's Personnel Administrative Policy Should Have Been In Writing

The Bell County Fiscal Court adopted an administrative code on November 13, 2001. Under the provisions of KRS 68.005, the county is required to have an administrative code that includes, but is not limited to, procedures and designation of responsibility for personnel administration. The county's administrative code allows employees to carry over vacation leave to the next calendar year. However, during our test of payroll, we noted that the former County Clerk's employees did not accrue vacation leave in accordance with the county's administrative code. The former County Clerk paid employees for unused vacation leave during the month of December rather than carrying it forward to next calendar year. When the former County Clerk chose to use a different personnel policy, the policy should have been documented in writing.

Former County Clerk's Response: No Response.

